

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14.R, VOLUME 10, CHAPTER 2
“DISCOUNT OFFERS AND CALCULATIONS AND REBATES”**

Substantive revisions are denoted by a ★ preceding the section or paragraph with the substantive change or revision.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
020101	Deletes the explanation of why discounts are offered (relocated to 020102). Indicates the location of the policy on the related topics of timely payment, cash management and late payment interest is Volume 10, Chapter 3, of the <u>DoD Financial Management Regulation</u> (“DoDFMR”). Adds a sentence stating that the policy and procedures in this chapter are on determining whether to take advantage of early payment discount offers.	Revised
020102	Revises the policy to indicate the reasons why the contractor may offer a discount and to add information on the Federal Acquisition Regulation (FAR) coverage and FAR contract clause, “Discount for Prompt Payment.”	Revised
020103	Inserts a paragraph to acknowledge that early payment may be a rebate or refund computation factor on a government charge card. Adds a sentence to define the policy on the timely credit of travel and purchase card rebates to operation and maintenance accounts that are current when the rebates or refunds are received. Adds a sentence to define the policy on crediting rebates or refunds attributable to the use of government charge cards. Regulations governing the use and control of rebates is required by 10 U.S.C. 2784(a) (1999).	New
020104	Inserts a paragraph to revise and consolidate the policy on when discounts are taken and when not taken. Inserts a sentence to recognize that Office of Management and Budget (OMB) granted a waiver (November 11, 1997) that permits accelerated payment of government charge card invoices.	Revised
020105	Relocates policy on payment dates from former subparagraph 020103.G. Edits the policy statement to eliminate the redundant content on when discounts should be taken.	Relocated
020201	Adds procedures on the discount computation period and revises the contents for consistency with the current FAR 32.902 and 5 CFR 1315.7(d). Deletes material that was repetitive or discussed elsewhere in the chapter.	New

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020202	Revises the procedures on determining discount cost effectiveness to better explain the basis, update the table of Treasury Current Value Funds Rates, and edits the example calculations.	Revised
020203	Edits and consolidates the discount computation procedures for invoices and progress payment liquidations.	Revised
020204	Relocates the former paragraph 020203.	Relocated
Former section 0202	Deletes the former material on reporting discounts lost to the OMB that no longer is required.	Deleted

CHAPTER 2

DISCOUNT OFFERS AND CALCULATIONS AND REBATES★0201 POLICY

020101. This chapter prescribes the policy and procedures for determining whether to take advantage of early payment discount offers. The Department of Defense (DoD) policy on timely payment, cash management, and late payment interest is in Chapter 3 of this volume.

020102. The contractor may offer invoice payment reductions to encourage making payments prior to the due date. The early payment discount offer may be part of the contract or included on individual invoices. For example, Federal Acquisition Regulation (FAR) paragraph 32.111(c) requires that FAR contract clause 52.232-8, “Discounts for Prompt Payment,” be included in all fixed-price supply and service contracts. The clause includes the steps used to determine the discount date. (See paragraph 020201, below.) The contractor may provide written advice to extend the discount period or increase the discount percentage beyond that previously offered. The contractor also may orally offer a discount on a specific invoice or invoices. In such cases, a conversation record stating the name and position of the person offering the discount, discount terms, and date of the offer should be attached to the invoice. The disbursing office may, at local option, require the contractor to provide written confirmation of the verbal offer.

020103. Government charge card programs may include provisions for a rebate or refund, that is, a deduction from the amount charged or a return of part of the price paid. The rebate or refund computation formula usually is included in the contract and the rebate amount calculated by the contractor. Early payment may be a rebate or refund computation factor. Rebates or refunds attributable to the use of the government travel and purchase cards may be credited to operation and maintenance accounts of the Department of Defense that are current when the rebates or refunds are received. Rebates or refunds attributable to the use of other charge cards, such as the Fleet Card and the Aviation Into plane Reimbursement Card may be credited to the appropriation originally charged (if that appropriation has not closed). If the appropriation has closed, the rebate or refund shall be credited to the Miscellaneous Receipts Account of the United States (U.S.) Treasury.

020104. Take the most cost effective discount offered when payment is made within the discount period. (Subparagraph 020203.B, below, describes the potential exception involving discounts on progress payment liquidations.) When an early payment discount is taken, the payment shall be made as close as possible to, but not later than, the discount date. Discounts shall not be taken when payment is made after the discount date. Schedule the payment for the “Net” pay period allowed if taking the discount would not be cost effective. (See Volume 10, Chapter 3, of this Regulation.) Pay government charge card invoices on an accelerated payment schedule, based on a waiver previously granted by the Office of Management and Budget and anticipated savings and efficiencies.

020105. Generally, contracts provide that the date of payment for discount purposes is the date the check is mailed. For electronic payments, the date of payment for discount purposes is the date that the government placed in the electronic funds transfer payment transaction instruction to the transfer network. This is the date on which the funds are to be transferred to the contractor's financial institution.

0202 PROCEDURES

★ 020201. Discount Computation Period. The discount date means the date by which a specified invoice payment reduction or early payment discount may be taken, in accordance with the discount terms. Computation of the discount period is conditioned on the receipt of a proper invoice when an invoice is required by the contract. The period for taking the discount is calculated from the date placed on a proper invoice by the vendor. If the vendor does not date the invoice, the discount period start date is the receipt date annotated on a proper invoice by the designated billing office. When the discount date falls on a weekend or legal holiday, payment may be made on the following business day and the discount may be taken. (See FAR 32.902 and 5 CFR 1315.7(d).)

★ 020202. Economic Justification

★ A. The determination of whether an offered discount is cost effective is based on a percentage rate comparison. The Treasury Current Value of Funds Rate (CVFR) (the rate used in assessing interest charges for outstanding debts owed the government) is compared with a calculated effective annual discount rate. Discounts are considered cost effective and should be taken when the calculated effective annual discount rate equals or exceeds the CVFR. Figure 2-1 is a listing of the published CVFR rates through 2002. Any more current published rate may be viewed on the Internet at <http://www.fms.treas.gov/prompt/cvfr-history.html/>.

★ Treasury Current Value of Funds Rate

Year	Current Value of Funds Rate	Year	Current Value of Funds Rate
1990	9%	1997	5%
1991	8%	1998	5%
1992	6%	1999	5%
1993	4%	2000	5%
1994	3%	2001	6%
1995	5%	2002	5%
1996	5%		

Figure 2-1

B. The formula used to calculate the effective annual discount rate (from section 8040.40 of Volume 1 of the Treasury Financial Manual) follows:

$$\frac{\text{Discount \%}}{1.00 - \text{Discount \%}} \times \frac{360}{\text{Number of Days in the Payment Period} - (\text{MINUS}) \text{Number of Days Left in Discount Period}} = \text{Effective Annual Interest Rate}$$

★ C. Figure 2-2 is a listing of various calculated effective annual interest rates assuming discount terms of 1 percent with from 20 days to 1 day remaining in the offered discount period. The more days remaining in the discount period, the higher the effective rate. If the offered discount rate is other than 1 percent, first obtain the value at 1 percent, then multiply or divide to determine the value of the offered discount. For example, if the terms of a year 2001 invoice were 1/2 percent in 5 days, net 30 days, the calculated value of 1 percent with 5 days remaining in the offered discount period (14.5 percent) would be divided by 2 (7.25 percent). The discount would be taken because the calculated rate of 7.25 percent exceeds the year 2001 CVFR of 6 percent. If the days remaining in the offered discount period exceed 20, compute the effective annual interest rate using the formula in subparagraph 020202.B, above.

D. Manually processed vouchers offering discounts of less than \$25 shall not be considered to be cost-effective.

Effective Annual Interest Rates for 1 Percent Discounts

Days Remaining In Offered Discount Period	Effective Annual Interest Value of 1 Percent	Days Remaining in Offered Discount Period	Effective Annual Interest Value of 1 Percent
1	12.5%	11	19.1%
2	13.0%	12	20.2%
3	13.5%	13	21.4%
4	14.0%	14	22.7%
5	14.5%	15	24.2%
6	15.2%	16	26.0%
7	15.8%	17	28.0%
8	16.5%	18	30.3%
9	17.3%	19	33.1%
10	18.2%	20	36.4%

Figure 2-2

020203 Discount Computations. The following procedures apply to discount computations that are completed upon the determination that taking the offered discount would be cost effective and, thus, the payment will be made by the discount date.

A. Invoices. Compute discounts on the approved gross amount of the invoice, unless otherwise declared in the contracting document, except as noted below.

1. Deduct taxes or freight charges that are separately listed.
2. Deduct taxes that are not proper charges under international or status of forces agreements.

3. When the withholding of funds is made mandatory under the terms of the contracting document, the government is entitled to any discount on the amount withheld when these amounts are released for payment if previous payments were paid within the discount terms of the contracting document or as later modified. The discount period starts when notification of release is received in the disbursing office.

4. Where trade-ins are involved, compute the discount on the actual cash balance due (60 Comp Gen 255 (1981)).

5. Contracts or invoices offering discounts on specific items, and not the total invoice or contract amount, shall be split in order to establish the payment timeframes. Split the invoice to earn cost-effective discounts on items subject to the discount offer and to make net payment on items that are not subject to discount.

6. Contract or purchase order modifications may change retroactively or add discount terms or increase the dollar amount of line items that were previously paid:

- a. When new or revised discount terms apply, take the discount on any subsequent payment that is made by the new or revised discount date

- b. When retroactive price increases apply, take the discount on the supplemental billing if payment is made by the discount date.

7. The following procedures apply when a contract for supplies, services, research and development, or construction includes FAR contract clause 52.211-11, 12, or 13 and liquidated damages apply.

- a. Where liquidated damages apply, and the contract or invoice also contains an offer of discount for early payment, the liquidated damages shall be deducted without regard to the discount. Compute the discount on the gross contract price without regard to the amount of liquidated damages (18 Comp Gen 784 (1939)).

- b. Where liquidated damages apply to a price that is modified and the contract contains an offer of discount for early payment, compute both the liquidated damages and the discount based upon the modified price (18 Comp Gen 784 (1939)).

B. Progress Payment Liquidations

1. When the discount terms have been met, take the discount against the amount of the gross invoice. If the discount date is not met, take the discount against the amount of the liquidation. The Comptroller General of the United States and the Armed Services Board of Contract Appeals both have confirmed the propriety of deducting a discount based on the progress payment liquidation amount when the payment is not made by the discount date (Comptroller General Decision B159741 (1966); Jay Dee Militarywear, Inc., 94-2 BCA 26,829 (1994)).

2. If the discount is offered for the first time on the invoice and the contract does not have a discount clause, do not take the discount on the progress payment liquidation portion of the invoice.

★ 020204. Miscellaneous Earnings and Discounts. In rare instances, the contractor may offer a voluntary discount after a contract is completed (including final payment). These discounts are distinguished from early payment and volume discounts in that voluntary discounts are discretionary with the contractor and do not reduce the amount obligated against the paying appropriation. Do not treat discounts received after payment as refunds. Such discounts should be deposited in the Miscellaneous Receipts Account of the U.S. Treasury.